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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, May 21, 1999

APPLICATION OF

VIRGINIA NATURAL GAS, INC.

CASE NO. PUE970617

For an Annual Informational Filing

ORDER SCHEDULING HEARING

On November 25, 1998, Virginia Natural Gas, Inc. ("VNG" or "the Company") filed its Annual Informational Filing ("AIF") with the State Corporation Commission ("Commission"). This AIF was accompanied by VNG's financial and operating data for the twelve months ended June 30, 1998.

On April 15, 1999, the Staff of the State Corporation Commission filed its report on VNG's AIF. Among other things, this report noted that after employing an earnings test-based on actual test year jurisdictional earnings, average rate base, average capital structure, and after making limited adjustments, the Company earned a return on equity of 11.09%, within its authorized return on equity range of 10.40% - 11.40%. The Staff report noted that the regulatory asset on the Company's books related to the implementation costs of accrual accounting for post retirement benefits other than pensions ("OPEB"). In this instance, Staff analyzed the results of its earnings test on a

normal weather basis, because, among other things, accruals related to OPEB were established as a regulatory asset on the basis of normal weather. Because the Company was earning above the bottom of its authorized return on equity range, Staff maintains that the Company has recovered this asset and should be required to write it off. Staff reported that after the write-off of the implementation costs of accrual accounting for OPEB, the Company's return on equity was 10.55%, a return above the bottom of the Company's currently authorized return on equity range of 10.40% - 11.40%.

On May 13, 1999, VNG, by counsel, filed a motion, requesting a hearing in this matter. In its motion, VNG stated that it disagreed with Staff's application of the earnings test and Staff's recommendation to write-off VNG's OPEB-related costs. Among other things, the Company asserted that Staff failed to demonstrate that VNG's earnings were sufficient to justify a write-down of this regulatory asset. VNG requested that the Commission: (i) grant it an opportunity to be heard on the issues and recommendations set out in the April 15, 1999, Staff report; (ii) establish a procedural schedule affording the Company an opportunity to present its position on the recommendations found in the Staff's report; and (iii) defer ruling on the recommendations set out in the report until such time as VNG had an opportunity to present its arguments.

NOW, upon consideration of the Company's AIF, the Staff report, the Company's motion and applicable statutes, the Commission is of the opinion and finds that this matter should be set for hearing on the issues raised in the Staff's April 15, 1999 report; that a Hearing Examiner should be appointed to conduct further proceedings in this matter; that the Company should be afforded an opportunity to file testimony in support of its position herein; that members of the Staff should present their findings in testimony at the hearing to be held herein; and that a public hearing should be convened to receive evidence relevant to the issues raised in the Staff's April 15, 1999 report.

According, IT IS ORDERED THAT:

(1) Pursuant to Rule 7:1 of the Commission's Rules of Practice and Procedure ("Rules"), a Hearing Examiner is appointed to conduct all further proceedings in this matter.

(2) A hearing before a Hearing Examiner is scheduled for July 28, 1999, at 10:00 a.m. in the Commission's second floor courtroom, located in the Tyler Building, 1300 East Main Street, Richmond, Virginia, for the purpose of receiving evidence relevant to the issues raised in the April 15, 1999, Staff report.

(3) On or before June 15, 1999, VNG shall file with the Clerk of the Commission an original and twenty (20) copies of

any direct testimony and exhibits it intends to present at the public hearing and shall on the same day serve a copy of the same upon the Staff and Staff counsel. Testimony filed with the Clerk of the Commission shall be directed to Joel H. Peck, Clerk of the Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218, and shall refer to Case No. PUE970617.

(4) On or before July 7, 1999, the Staff shall file with the Clerk of the Commission an original and twenty (20) copies of the testimony and exhibits it intends to present at the public hearing and shall mail or hand-deliver a copy of said testimony to counsel for the Company. Service upon the Company shall be directed to Guy T. Tripp, III, Esquire, Hunton & Williams, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219-4074.

(5) VNG shall respond to written interrogatories or requests for the production of documents and things within seven (7) business days of the receipt of same. Except as so modified, discovery shall be in accordance with Part VI of the Commission's Rules.

(6) On or before July 21, 1999, VNG shall file an original and twenty (20) copies of all testimony and exhibits it intends to introduce in rebuttal to all prefiled testimony and exhibits; additional rebuttal may be presented in response to matters arising during the hearing only with leave of the Hearing

Examiner. The Company shall hand-deliver a copy of its prefiled rebuttal testimony to the Staff and Staff counsel on or before July 21, 1999.